



State of Washington
STATE FINANCE COMMITTEE

MIKE PELLICCIOTTI, Chair
State Treasurer

JAY R. INSLEE
Governor

DENNY HECK
Lieutenant Governor


MINUTES - ADOPTION OF BOND SALE RESOLUTION

April 26, 2022 – 12:00 PM

Via Zoom and Telephonic


The State Finance Committee (the "Committee") of the State of Washington, acting by and through the State Treasurer, under authority delegated by the State Finance Committee under Resolution No. 1247, as provided by RCW 39.42.030(2), considered for approval proposed Bond Sale Resolutions after notice was duly given to the public.

Committee Members Present: Treasurer Pellicciotti, Chair

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Mike Pellicciotti

Committee Staff Present: Jason Richter, Secretary

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Jason Richter

Chair Pellicciotti called the meeting to order at 12:00 PM. Chair Pellicciotti stated the purpose of the meeting was the approval of minutes from a prior meeting, and discussion regarding and adoption of two Bond Sale Resolutions.

1. Chair Pellicciotti introduced draft minutes from the February 8, 2022, Adoption of Bond Sale Resolution meeting. No corrections or amendments were requested. Chair Pellicciotti approved the minutes as presented.

Next, Secretary Richter provided an overview of the bond sale, the state's municipal advisors provided comment, and Chair Pellicciotti adopted the following Bond Sale Resolutions:

2. **Resolution No. 1258** approving the competitive sale of \$860,680,000 principal amount of Various Purpose General Obligation Refunding Bonds, Series R-2022C, of the State; fixing the interest rates; and providing for other matters properly relating thereto.
3. **Resolution No. 1259** approving the competitive sale of \$499,700,000 principal amount of Motor Vehicle Fuel Tax General Obligation Refunding Bonds, Series R-2022D, of the State; fixing the interest rates; and providing for other matters properly relating thereto. Based on the recommendation provided by staff and as provided for in the State Finance Committee's Debt Issuance Policy, Chair Pellicciotti found that the state was justified in a slight variance from the savings guidelines (see attached memo).
4. Chair Pellicciotti opened the meeting to public comment: No members of the public provided comment. Chair Pellicciotti adjourned the meeting at 12:23 PM.



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MEMORANDUM

To: Mike Pellicciotti, State Treasurer and State Finance Committee Chair
From: Jason Richter, Deputy Treasurer – Debt Management and State Finance Committee Secretary
Re: Refunding Savings Compared to State Finance Committee Policy Guidelines
Date: April 26, 2022

On April 26, 2022, the Treasurer's Office, acting on behalf of the State Finance Committee, sold two series of bonds to refinance previously issued Various Purpose General Obligation Bonds and Motor Vehicle Fuel Tax General Obligation Bonds. The State Finance Committee's ("SFC") Debt Issuance Policy provides guidelines on minimum debt service savings targets for refinancings. This memo summarizes the results of the sales and adherence to the SFC savings policy.

Refinancing Description

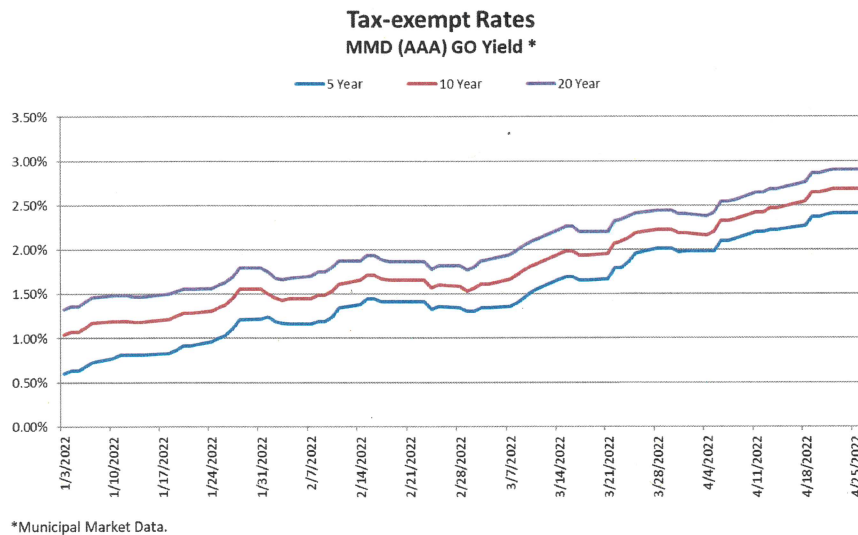
The refinanced bonds, summarized in Table 1 of the appendix, were all issued during calendar year 2012 and were callable on either 7/1/2022 or 8/1/2022. All six series of the 2012 bonds were refinanced through what is known as a current refunding, where the refunding bonds are issued no more than 90 days prior to the respective call dates of the bonds being refinanced. The amount of Various Purpose Bonds refinanced totaled approximately \$896.6 million, and the Motor Vehicle Fuel Tax Bonds refinanced totaled approximately \$522.3 million.

The April 26th transaction was conducted via a competitive sale and included two series of bonds to refund all six of the original series. (One for the Various Purpose General Obligation Bonds and the other for Motor Vehicle Fuel Tax General Obligation Bonds.) Each refunding series was split into two for a total of four bid groups. BofA Securities, Inc. submitted the winning bid for all of the bid groups. Series R-2022C totaled \$860,680,000, and Series R-2022D totaled \$499,700,000. Table 2 in the appendix summarizes the principal amounts of the four bid groups.

Interest Rates

The municipal bond market saw significant interest rate increases year to date, with conditions becoming increasingly volatile leading up to the sale date. For example, as shown in the table below, from January 1 to the April 26 sale date, interest rates along the yield curve rose significantly. Concerns regarding elevated inflation paired with the expectations that the Federal Reserve will step up the size and pace of its rate hikes fueled the rapid increase in rates. In the tax exempt MMD benchmark, the 10-year MMD and 20-year MMD rates more than doubled. Earlier in the yield curve, interest rates rose more dramatically, evidenced by the 5-year MMD more than quadrupling.

MMD (AAA)			
As of	5-Year	10-Year	20-Year
1/3/2022	0.60%	1.04%	1.33%
4/26/2022	2.41%	2.68%	2.90%
Difference	1.81%	1.64%	1.57%
Multiplier	4.02x	2.58x	2.18x



SFC Debt Issuance Policy

Under RCW 39.53.020, bonds may be refunded in order to achieve savings for the public. The SFC's Debt Issuance Policy, adopted May 1996 and amended January 25, 2011, establishes target thresholds for present values savings as a percent of the refunding bonds. For transactions conducted as current refundings (refinancings that close within 90 days of the call date), the SFC policy states:

"Unless otherwise justified, a 'current refunding' transaction will require graduated present value savings as follows:

Years Between Call & Final Redemption	Present Value Standard
1-2 Years	1%
3-4	2%
5-6	3%
7-8	4%
9+	5%

For the 2012 bonds being refinanced in this transaction, the number of years between call dates and final redemption ranged between 7 and 20 years. As such, the applicable present value thresholds for each series being refinanced, unless otherwise justified, are either 4% or 5%, summarized in Table 1 of the appendix.

In preparation of the sale, the debt management team monitored the impact of rising interest rates on the projected savings. In February, preliminary numbers projected aggregate savings of 12.32% for Series R-2022C and 11.59% for Series R-2022D, significantly above the SFC target threshold for savings.

However, the upward trend of interest rates eroded the projected savings of the refunding. Two weeks prior to the sale, the projected refinancing cashflows showed savings levels that were at or below the savings threshold for certain series. Of the seven series of bonds then considered for refunding, six series met the SFC policy guidelines, however one did not. The debt management team elected to exclude Motor Vehicle Fuel Tax GO Bonds, Series 2013B-2 from the refinancing, which had projected savings results that were 1.16% below the threshold, and recommended continuing to monitor the remaining six series of bonds for refunding.

In the week prior to the sale date, interest rates further eroded the projected savings, putting another series in jeopardy of falling below the SFC guidelines. However, the debt management team recommended continuing with the remaining six series of refinancing candidates.

The primary rationale was that given the expectation for increasing interest rates, along with the lost savings from not refinancing the six series on their call dates, the debt service savings that could be locked-in on the April 26, 2022 sale date would likely be the best results the state could achieve. Waiting for future refinancing opportunities would likely lead to increased borrowing costs and lower savings. In addition, the lost savings from delaying the refinancing, along with reduced efficiency and increased costs of issuance would only further reduce total net present value (NPV) savings.

Refunding Results

On April 26, 2022 the refunding bonds were sold, locking in interest rates at levels slightly better than expected. The final debt service savings produced by the refinancing ended up being slightly better than the preliminary numbers prepared in the days leading up to the sale. Of the six series refinanced, five adhered to the SFC guideline, and one series (R-2013B) remained slightly below, but by only 6 basis points (0.06%). The table below summarizes the refunding results by series.

Series	Gross Savings (\$)	Net Present Value (NPV) Savings (\$)	NPV Savings (% of Refunding Bonds)	SFC Present Value Savings Threshold
Various Purpose GO Refunding Bonds, Series R-2012C	33,738,576.83	30,310,017.23	6.14%	4%
Various Purpose GO Bonds, Series 2013A	13,286,630.16	10,023,400.46	5.91%	5%
Various Purpose GO Refunding Bonds, Series R-2013A	11,431,461.73	10,195,390.48	5.17%	4%
Motor Vehicle Fuel Tax GO Refunding Bonds, Series R-2012D	10,359,100.90	8,962,969.54	5.46%	4%
Motor Vehicle Fuel Tax GO Bonds, Series 2013B-1	10,451,612.13	7,439,567.90	5.28%	5%
Motor Vehicle Fuel Tax GO Refunding Bonds, Series R-2013B	8,574,898.47	7,664,148.92	3.94%	4%

On an aggregate basis, Series R-2022C achieved NPV savings of \$50,528,808 or 5.87% of the refunding bonds; Series R-2022D achieved NPV savings of \$24,066,686, or 4.81% of the refunding bonds.

Conclusion

The refunding bonds sold on April 26, 2022 resulted in over \$87 million of debt service savings for the state. In light of the sharp increases in municipal bond interest rates, the debt management team recommended including six callable series of bonds in the refinancing. Refunding results for five of the series exceed the SFC policy for savings. One series produced results that were slightly lower (only 6 basis points (0.06%) below) than the applicable SFC guideline. However, in anticipation of continued increases in interest rates and reduced efficiency related to refinancing the bonds at a later date, including the R-2013B bonds in the refunding was justified to avoid the high likelihood of increased future borrowing costs and lower future savings.

Appendix

Table 1 – Summary of Refunded Bonds

Series	Issued Date	Call Date	Principal Refunded (\$)	Final Maturity	Years between Call Date & Final Maturity	SFC Present Value Savings Threshold
Various Purpose GO Refunding Bonds, Series R-2012C	2/1/2012	7/1/2022	513,615,000	7/1/2029	7	4%
Various Purpose GO Bonds, Series 2013A	8/2/2012	8/1/2022	177,335,000	8/1/2037	15	5%
Various Purpose GO Refunding Bonds, Series R-2013A	9/6/2012	7/1/2022	205,645,000	7/1/2030	8	4%
Motor Vehicle Fuel Tax GO Refunding Bonds, Series R-2012D	2/21/2012	7/1/2022	173,195,000	7/1/2029	7	4%
Motor Vehicle Fuel Tax GO Bonds, Series 2013B-1	8/2/2012	8/1/2022	146,270,000	8/1/2042	20	5%
Motor Vehicle Fuel Tax GO Refunding Bonds, Series R-2013B	9/6/2012	7/1/2022	202,830,000	7/1/2030	8	4%

Table 2 – Summary of Refunding Bonds

Series	Bid Group	Bids Due	Maturities	Bid Par Amount (\$)	Final Par Amount (\$)
Various Purpose GO Refunding Bonds, Series R-2022C	Bid Group 1	7:15 am	2022-2026	407,730,000	860,680,000
	Bid Group 2	7:45 am	2027-2037	448,565,000	
Motor Vehicle Fuel Tax GO Refunding Bonds, Series R-2022D	Bid Group 1	8:15 am	2022-2027	279,475,000	499,700,000
	Bid Group 2	8:45 am	2028-2042	217,090,000	